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TAWAS UTILITIES AUTHORITY  
IOSCO COUNTY, MICHIGAN

AUDITORS' REPORT  
YEAR ENDED JUNE 30, 2008

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## AUDITORS' REPORT

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December 10, 2008

Independent Auditors' Report

Members of the Authority Board  
Tawas Utilities Authority  
Iosco County, Michigan

We have audited the accompanying financial statements of the governmental activities and each major fund of the Tawas Utilities Authority, Iosco County, Michigan, as of and for the year ended June 30, 2008, which collectively comprise the Authority's basic financial statements, as listed in the index. These financial statements are the responsibility of the Tawas Utilities Authority's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to in the first paragraph present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the Tawas Utilities Authority, Iosco County, Michigan, as of June 30, 2008, and the respective changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 2, the Tawas Utilities Authority has implemented a new financial reporting model, as required by the provisions of GASB Statement No. 34, *Basic Financial Statements-and Management's Discussion and Analysis-for State and Local Governments*, as of June 30, 2008.

The management's discussion and analysis and budgetary comparison information are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

*Stephenson, Gracik & Co., P.C.*

***Tawas Utilities Authority  
810 W. Franklin Street  
East Tawas, MI 48730***

**MANAGEMENT'S DISCUSSION AND ANALYSIS**

The discussion and analysis of the Tawas Utilities Authority's (the Authority) financial performance provides an overview of the Authority's financial activities for the year ended June 30, 2008. The intent of this discussion and analysis is to look at the Authority's financial performance as a whole. The discussion focuses on the Authority's primary government. This analysis, a requirement of Governmental Accounting Standards Board Statement 34 (GASB 34), omits certain comparative data that will be available in future years.

**Financial Highlights**

- The Authority's assets exceeded its liabilities by \$468,318.
- The Authority's total net assets increased by \$27,587.
- The Authority's governmental funds reported a combined ending fund balance of \$223,112 this year, an increase of \$34,837. Of this amount, \$222,588 (*unreserved fund balance*) is available for spending at the Authority's discretion.

**Overview of the Financial Statements**

The financial statements are organized so the reader can understand the Authority as a financial whole or as an entire operating entity. The statements also provide a detailed look at specific financial conditions.

The Authority's basic financial statements are comprised of three components: The government-wide financial statements, fund financial statements, and notes to financial statements. The report also contains other supplementary information in addition to the basic financial statements.

**Government-wide Financial Statements**

The *statement of net assets* and the *statement of activities* display information about the Authority as a whole. These statements include the financial activities of the primary government.

The statement of net assets presents the financial condition of the governmental activities of the Authority at year end. The statement of activities presents a comparison between direct expenses and program revenues for each program or function of the Authority's governmental activities. Direct expenses are those that are specifically associated with a service, program, or department and, therefore, clearly identifiable to a particular function.

Program revenues include charges paid by the recipient for the goods or services offered by the program, and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues are presented as general revenues of the Authority with certain limited exceptions. The comparisons of direct expenses with program revenues identifies the extent to which each governmental program is self-financing or draws from the general revenues of the Authority.

With this report, all capital assets are listed for the Tawas Utilities Authority. These assets are comprised of land and the collection system owned by the Authority. These assets total over \$297,000.

## Fund Financial Statements

The Authority uses funds to maintain its financial records during the year. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts. The Authority operates under two funds which are considered *Governmental Funds*.

### ***Governmental Funds:***

Governmental funds are those through which all governmental functions of the Authority are financed. Governmental fund reporting focuses on the sources, uses and balances of current financial resources. Expendable assets are assigned to the various governmental funds according to the purpose for which they may or must be used. Current liabilities are assigned to the fund from which they will be paid. The difference between governmental fund assets and liabilities is reported as fund balance. The following are the Authority's major governmental funds:

- General Fund – This fund accounts for all financial resources, except those required to be accounted for in another fund. Revenues are derived primarily from charges for services.
- Industrial Park Project Sewer System #2 Debt Service Fund – This fund is used to record revenues which are restricted for the payment of principal and interest on long-term debt.

## Notes to Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided on the Authority *government-wide* and *fund* financial statements. The notes to financial statements are presented following the Basic Financial Statements, and provide an expansive and thorough view of various aspects of the audited financial statements.

## Government-Wide Financial Analysis

Because this is the first year of implementation of Governmental Accounting Standards Board Statement No. 34, which requires this new reporting model, the following tables present only current year data. In future years, when prior-year information is available, comparative analysis of government-wide data will be presented.

### **Summary of Net Assets:**

The following summarizes the net assets of the Tawas Utilities Authority at June 30, 2008:

#### **Net Assets Summary**

	<b><u>Governmental Activities</u></b>
Current Assets	\$ 445,642
Capital Assets, net	<u>245,206</u>
<b>Total Assets</b>	<u>690,848</u>
Current Liabilities	32,530
Long-Term Liabilities	<u>190,000</u>
<b>Total Liabilities</b>	<u>222,530</u>

GOVERNMENT-WIDE FINANCIAL ANALYSIS (CONTINUED)

**Net Assets Summary**

	<b><u>Governmental Activities</u></b>
<b>Net Assets</b>	
Invested in Capital Assets	\$ 245,206
Restricted for Debt Service	524
Unrestricted	<u>222,588</u>
<b>Total Net Assets</b>	<b><u>\$ 468,318</u></b>

**Summary of Changes in Net Assets:**

Following is an analysis of the changes in net assets for fiscal year 2008. Since this is the first year the Authority has prepared financial statements following GASB Statement No. 34, revenue and expense comparisons to 2007 are not available. In future years, when prior year information is available, a comparative analysis of government-wide data will be presented.

Generally speaking, the Authority's net assets represent the difference between assets and liabilities. Net assets invested in capital assets consist of capital assets, net of accumulated depreciation. The Tawas Utilities Authority, through its governing body, i.e., the Authority Board, has taken a sensible approach regarding capital asset acquisition. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the Authority or through external restrictions imposed by creditors, grantors or laws/regulations of other governments.

	<b><u>Governmental Activities</u></b>
<b>Revenues:</b>	
<b>Program Revenues:</b>	
Charges for Services	<u>\$ 435,419</u>
<b>General Revenue:</b>	
Contributions from Local Units	15,117
Investment Earnings	<u>7,271</u>
<b>Total General Revenue</b>	<u>22,388</u>
<b>Total Revenues</b>	457,807
<b>Program Expenses:</b>	
Public Works	415,365
Interest and Fees on Long-Term Debt	<u>14,855</u>
<b>Total Program Expenses</b>	<u>430,220</u>
Change in Net Assets	27,587
Beginning Net Assets	<u>440,731</u>
Ending Net Assets	<b><u>\$ 468,318</u></b>

## **Governmental Activities**

With GASB 34 implementation, this new component of reporting reflects the *Statement of Activities and* illustrates, by department, the expense incurred and revenue received.

Total governmental activities reveal revenues of \$435,419 from *Charges for Services*. Operating expenses totaled \$430,220 for these same activities.

## **Financial Analysis of Authority Funds**

As noted earlier in this report, the Authority uses fund accounting to ensure and demonstrate compliance with finance-related statutory and legal requirements. A thorough review and examination of fund types will reveal the strengths and weaknesses of its daily operations.

### **Governmental Funds**

Governmental fund reporting focuses on the sources, uses and balances of current financial resources. The difference between governmental fund assets and liabilities is reported as fund balance. The following are the Authority's major governmental funds: 1) General Fund – accounts for all financial resources, except those required to be accounted for in another fund. Revenues are derived primarily from charges for services; and 2) Industrial Park Project Sewer System #2 Debt Service Fund – accounts for the payment of principal and interest on long-term debt with revenues restricted for this purpose.

This year's Authority audit, following the GASB 34 format, shows 2 funds. The Authority Treasurer maintains these funds as separate units in the General Ledger.

## **Budgetary Highlights**

### **General Fund Budgetary Highlights**

The Authority's budget is prepared according to Michigan Law. During the fiscal year ended June 30, 2008, the Authority amended its budget a few times, none significantly.

The General Fund actual revenue was \$442,650. That amount is above the original budget estimate of \$437,150 and final budget estimate of \$442,500. The variance between the actual revenue and the final budget was the result of increased revenues from charges for services.

The General Fund actual expenditures were \$408,115. That amount is below the original budget estimate of \$437,150 and the final budget estimate of \$442,500. The variance between the actual expenditures and the final budget was the result of decreased expenditures in various expenses.

Fiscal year 2008 saw the Authority's General Fund fund balance increased from \$188,053 to \$222,588.

## **Capital Asset and Debt Administration**

### **Capital Assets**

Of primary interest with this year's Authority financial statements is the inclusion of "capital assets". The Authority defines capital assets as assets with an initial individual cost of more than \$5,000 and an estimated useful life in excess of five years. Such assets are recorded at *historical cost* or *estimated historical cost* if purchased or constructed. Donated capital assets are recorded at estimated FMV (fair market value) at the date of donation.

Capital Assets – Governmental Activities beginning and ending balance was \$297,498. Governmental Activities Total Capital Assets – Net of Depreciation was \$245,206.

At year's end, long-term debt (due in more than one year) amounted to \$145,000. Such debt includes *Bonds Payable*.

### **Economic Factors**

The Authority Board continues to work hard to keep expenditures down and to maintain revenue levels that are within their control. The Authority charges for services account for approximately 98% of the Authority General Fund Revenues.

The major expenditures for the Authority General Fund are for public works expense.

The Authority Board monitors the revenue and expenditures throughout the year and takes appropriate action when the economic factors dictate a change.

### **Requests for Information**

This financial report is designed to provide a general overview of the Authority's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Tawas Utilities Authority, 810 W. Franklin Street, East Tawas, Michigan, 48730.



TAWAS UTILITIES AUTHORITY  
Iosco County, Michigan

STATEMENT OF NET ASSETS  
June 30, 2008

	<u>Governmental Activities</u>
<u>Assets</u>	
Cash and Cash Equivalents (Note 3)	\$ 209,730
Receivables:	
Contracts Receivable (Note 1)	190,000
Due from Other Units of Government	38,232
Prepaid Expenses	7,680
Noncurrent Assets:	
Capital Assets, Net (Note 4)	<u>245,206</u>
Total Assets	<u>690,848</u>
<u>Liabilities</u>	
Accounts Payable	30,495
Accrued Interest Payable	2,035
Long Term Liabilities: (Note 6)	
Due Within One Year	45,000
Due In More Than One Year	<u>145,000</u>
Total Liabilities	<u>222,530</u>
<u>Net Assets</u>	
Invested in Capital Assets	245,206
Restricted For:	
Debt Service	524
Unrestricted	<u>222,588</u>
Total Net Assets	<u>\$ 468,318</u>

The accompanying notes to financial statements are an integral part of this statement.

TAWAS UTILITIES AUTHORITY  
Iosco County, Michigan

STATEMENT OF ACTIVITIES  
For the Year Ended June 30, 2008

<u>Function/Program</u>	<u>Program Revenues</u>				<u>Net (Expense)</u>
	<u>Expenses</u>	<u>Charges for</u> <u>Services</u>	<u>Operating</u> <u>Grants and</u> <u>Contributions</u>	<u>Capital</u> <u>Grants and</u> <u>Contributions</u>	<u>Revenue and</u> <u>Changes in</u> <u>Net Assets</u>
					<u>Primary</u> <u>Governmental</u> <u>Activities</u>
<u>Primary Government</u>					
Governmental Activities:					
Public Works:					
Other Public Works	\$ 415,365	\$ 435,419	\$ 0	\$ 0	\$ 20,054
Interest and Fees on Long-Term Debt	<u>14,855</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>(14,855)</u>
Total Governmental Activities	<u>\$ 430,220</u>	<u>\$ 435,419</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>5,199</u>
General Revenue:					
Contributions from Local Units					15,117
Interest and Investment Earnings					<u>7,271</u>
Total General Revenue					<u>22,388</u>
Change in Net Assets					27,587
Net Assets - Beginning					<u>440,731</u>
Net Assets - Ending					<u>\$ 468,318</u>

The accompanying notes to financial statements are an integral part of this statement.

TAWAS UTILITIES AUTHORITY  
Iosco County, Michigan

BALANCE SHEET  
GOVERNMENTAL FUNDS  
June 30, 2008

	<u>General Fund</u>	<u>Debt Service Fund Industrial Park Project Sewer System #2</u>	<u>Total Governmental Funds</u>
<u>ASSETS</u>			
Cash and Cash Equivalents (Note 3)	\$ 209,206	\$ 524	\$ 209,730
Receivables: (Note 1)			
Contracts Receivable	0	190,000	190,000
Due from Other Units of Government	36,197	0	36,197
Prepaid Expenses	<u>7,680</u>	<u>0</u>	<u>7,680</u>
Total Assets	<u>\$ 253,083</u>	<u>\$ 190,524</u>	<u>\$ 443,607</u>
<u>LIABILITIES AND FUND EQUITY</u>			
<u>Liabilities</u>			
Accounts Payable	\$ 30,495	\$ 0	\$ 30,495
Deferred Revenue (Note 5)	<u>0</u>	<u>190,000</u>	<u>190,000</u>
Total Liabilities	<u>30,495</u>	<u>190,000</u>	<u>220,495</u>
<u>Fund Equity</u>			
Fund Balances:			
Reserved For:			
Debt Service	0	524	524
Unreserved:			
Designated For:			
Capital Improvements	107,826	0	107,826
Undesignated, Reported In:			
General Fund	<u>114,762</u>	<u>0</u>	<u>114,762</u>
Total Fund Equity	<u>222,588</u>	<u>524</u>	<u>223,112</u>
Total Liabilities and Fund Equity	<u>\$ 253,083</u>	<u>\$ 190,524</u>	<u>\$ 443,607</u>

The accompanying notes to financial statements are an integral part of this statement.

TAWAS UTILITIES AUTHORITY  
Iosco County, Michigan

RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES TO  
NET ASSETS OF GOVERNMENTAL ACTIVITIES  
June 30, 2008

Total Governmental Fund Balances		\$	223,112
Amounts reported for governmental activities in the statement of net assets are different because:			
Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in governmental funds. Capital assets at year end consist of:			
Capital Asset Cost	\$	297,498	
Accumulated Depreciation		<u>(52,292)</u>	
			245,206
Other assets are not available to pay for current period expenditures and, therefore, are deferred in the governmental funds:			
Contracts Receivable			190,000
Long-term liabilities are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds. Long-term liabilities at year end consist of:			
Bonds Payable			<u>(190,000)</u>
Total Net Assets - Governmental Activities		\$	<u><u>468,318</u></u>

The accompanying notes to financial statements are an integral part of this statement.

TAWAS UTILITIES AUTHORITY  
Iosco County, Michigan

STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCES  
GOVERNMENTAL FUNDS  
For the Year Ended June 30, 2008

	<u>General Fund</u>	<u>Debt Service Fund Industrial Park Project Sewer System #2</u>	<u>Total Governmental Funds</u>
<u>Revenue</u>			
Contributions from Local Units	\$ 0	\$ 60,593	\$ 60,593
Charges for Services	435,419	0	435,419
Interest and Rentals	7,231	40	7,271
Total Revenue	<u>442,650</u>	<u>60,633</u>	<u>503,283</u>
<u>Expenditures</u>			
Current:			
Public Works	396,525	0	396,525
Capital Outlay	11,590	0	11,590
Debt Service:			
Principal	0	45,000	45,000
Interest and Fiscal Charges	0	15,331	15,331
Total Expenditures	<u>408,115</u>	<u>60,331</u>	<u>468,446</u>
Excess of Revenue Over Expenditures	34,535	302	34,837
Fund Balances - Beginning of Year	<u>188,053</u>	<u>222</u>	<u>188,275</u>
Fund Balances - End of Year	<u>\$ 222,588</u>	<u>\$ 524</u>	<u>\$ 223,112</u>

The accompanying notes to financial statements are an integral part of this statement.

TAWAS UTILITIES AUTHORITY  
Iosco County, Michigan

RECONCILIATION OF THE STATEMENT OF REVENUE, EXPENDITURES  
AND CHANGES IN FUND BALANCES OF  
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES  
For the Year Ended June 30, 2008

Total Net Change in Fund Balances - Governmental Funds	\$ 34,837
Amounts reported for governmental activities in the statement of activities are different because:	
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense.	
Current Year Depreciation Expense	(7,250)
Contracts receivable repayments are revenue in the governmental funds, but the repayments reduce the contracts receivable balances in the statement of net assets. The activity reported in the governmental funds is as follows:	
Current Year Contracts Receivable Principle Receipts	(45,000)
Principal repayments on long-term debt are reported as expenditures in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. The amount of repayments reported as expenditures in the governmental funds consist of:	
Bonds Payable	<u>45,000</u>
Change in Net Assets of Governmental Activities	<u>\$ 27,587</u>

The accompanying notes to financial statements are an integral part of this statement.

TAWAS UTILITIES AUTHORITY  
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS  
For the Year Ended June 30, 2008

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Tawas Utilities Authority (Authority) conform to accounting principles generally accepted in the United States of America (GAAP) applicable to governments. Private-sector standards of accounting issued after November 30, 1989, are generally followed in the government-wide financial statements to the extent that those standards do not conflict with the standards of the Governmental Accounting Standards Board. The following is a summary of the significant accounting policies:

A. Description of Authority Operations

The Tawas Utilities Authority operates under the supervision and control of a Board consisting of the City Managers and one representative of both the City of Tawas City and the City of East Tawas. The Authority provides sewage treatment services to the Cities of Tawas City and East Tawas and the Township of Baldwin.

The Tawas Utilities Authority functions as a joint venture between the City of Tawas City and the City of East Tawas. The Authority was established for the construction and operation of water and sewage treatment facilities to service both municipalities. Effective May 1, 1997, the Tawas Utilities Authority no longer handles water operations. These operations were taken over by the Huron Shore Regional Utility Authority.

All activities over which the Authority exercises oversight responsibility have been included in the reporting entity. Oversight responsibility is determined by factors such as financial interdependency, selection of governing authority, designation of management, ability to significantly influence operations, and accountability for fiscal matters of the entity.

B. Reporting Entity

A reporting entity is composed of the primary government, component units, and other organizations that are included to ensure the financial statements of the Authority are not misleading. The primary government of the Authority consists of all funds, departments, boards, and agencies that are not legally separate from the Authority.

Component units are legally separate organizations for which the Authority is financially accountable. The Authority is financially accountable for an organization if the Authority appoints a voting majority of the organization's governing board and (1) the Authority is able to significantly influence the programs of services performed or provided by the organization; or (2) the Authority is legally entitled to or can otherwise access the organization's resources; the Authority is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization; or the Authority is obligated for the debt of the organization. Component units may also include organizations for which the Authority approves the budget, the issuance of debt, or the levying of taxes. The Authority does not have any component units.

TAWAS UTILITIES AUTHORITY  
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS  
For the Year Ended June 30, 2008

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Basis of Presentation

The Authority's basic financial statements consist of government-wide financial statements, including a statement of net assets and a statement of activities, and fund financial statements which provide a more detailed level of financial information.

**Government-Wide Financial Statements**

The statement of net assets and the statement of activities display information about the Authority as a whole. These statements include the financial activities of the primary government. For the most part, the effect of interfund activity has been removed from the statements. The statements distinguish between those activities of the Authority that are governmental and those that are considered business-type activities. Governmental activities are normally supported by taxes and intergovernmental revenues while business-type activities rely to a significant extent on fees and charges for support. The Authority does not currently have any business-type activities.

The statement of net assets presents the financial condition of the governmental activities of the Authority at year end. The statement of activities presents a comparison between direct expenses and program revenues for each program or function of the Authority's governmental activities. Direct expenses are those that are specifically associated with a service, program, or department and, therefore, clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods or services offered by the program and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues are presented as general revenues of the Authority, with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which each governmental program is self-financing or draws from the general revenues of the Authority.

**Fund Financial Statements**

During the year, the Authority segregates transactions related to certain Authority functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance. Fund financial statements are designed to present financial information of the Authority at this more detailed level. The focus of governmental fund financial statements is on major funds. Each major fund is presented in a separate column.

D. Fund Accounting

The Authority uses funds to maintain its financial records during the fiscal year. Fund accounting is designed to demonstrate legal compliance and to aid management by segregating transactions related to certain Authority functions or activities. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts. There is one category of funds: governmental.

**Governmental Funds**

Governmental funds are those through which most governmental functions of the Authority are financed. Governmental fund reporting focuses on the sources, uses and balances of current financial resources. Expendable assets are assigned to the various governmental funds according to the purposes for which they may or must be used. Current liabilities are assigned to the fund from which they will be paid. The difference between governmental fund assets and liabilities is reported as fund balance. The following are the Authority's major governmental funds:



TAWAS UTILITIES AUTHORITY  
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS  
For the Year Ended June 30, 2008

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Fund Accounting (Continued)

General Fund - This fund accounts for all financial resources, except those required to be accounted for in another fund. Revenues are derived primarily from charges for services.

Industrial Park Project Sewer System #2 Debt Service Fund - This fund is used to record revenues which are restricted for the payment of principal and interest on long-term debt.

E. Measurement Focus

**Government-Wide Financial Statements**

The government-wide financial statements are prepared using a flow of economic resources measurement focus.

All assets and all liabilities associated with the operation of the Authority are included on the statement of net assets.

**Fund Financial Statements**

All governmental funds are accounted for using a flow of current financial resources measurement focus. With this measurement focus, only current assets and current liabilities are generally included on the balance sheet. The statement of revenue, expenditures, and changes in fund balances reflects the sources (i.e., revenues and other financial sources) and uses (i.e., expenditures and other financial uses) of current financial resources. This approach differs from the manner in which the governmental activities of the government-wide financial statements are prepared. Governmental fund financial statements, therefore, include a reconciliation with brief explanations to better identify the relationship between the government-wide statements and the fund financial statements for governmental funds.

F. Basis of Accounting

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting. Differences in the accrual and modified accrual basis of accounting arise in the recognition of revenue, the recording of deferred revenue, and in the presentation of expenses versus expenditures.

**Revenues – Exchange and Non-exchange Transactions**

Revenues resulting from exchange transactions, in which each party receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenues are recorded in the fiscal year in which the resources are measurable and available. Available means that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the Authority, available means expected to be received within 60 days of the fiscal year-end.

TAWAS UTILITIES AUTHORITY  
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS  
For the Year Ended June 30, 2008

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

F. Basis of Accounting (Continued)

Nonexchange transactions, in which the Authority receives value without directly giving equal value in return, include grants, entitlements and donations. Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted, matching requirements, in which the Authority must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the Authority on a reimbursement basis. On a modified accrual basis, revenues from nonexchange transactions must also be available before they can be recognized.

Under the modified accrual basis, the following revenue sources are considered to be both measurable and available at year-end: contributions from local units, charges for services, and interest.

**Deferred Revenue**

Deferred revenue arises when assets are recognized before revenue recognition criteria have been satisfied.

On governmental fund financial statements, receivables that were not collected within the available period are recorded as deferred revenue.

**Expenses/Expenditures**

On the accrual basis of accounting, expenses are recognized at the time they are incurred.

The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Expenditures are generally recognized in the accounting period in which the related fund liability is incurred, if measurable. Allocations of cost, such as depreciation and amortization, are not recognized in governmental funds.

G. Cash and Cash Equivalents

For presentation on the financial statements, investments in the cash management pools and investments with an original maturity of three months or less at the time they are purchased by the Authority are considered to be cash equivalents. Investments with an initial maturity of more than three months are reported as investments.

Investments are reported at fair value, except for repurchase agreements and certificates of deposit which are reported at cost which approximates fair value. Fair value is based on quoted market prices. Mutual funds are reported at current share price.

H. Prepaid Items

Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid items in both the government-wide and fund financial statements.

TAWAS UTILITIES AUTHORITY  
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS  
For the Year Ended June 30, 2008

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

I. Contracts Receivable

Contracts receivable consist of monies due to the Authority from Baldwin Township for reimbursement of the 1992 Tawas Utility Authority General Obligation Limited Tax Bonds. The amount due from the Township of Baldwin at June 30, 2008 was \$190,000 of which \$145,000 was the estimated amount not expected to be collected within one year.

The allowance for doubtful accounts at June 30, 2008 was \$0.

J. Capital Assets

General capital assets are capital assets which are associated with and generally arise from governmental activities. They generally result from expenditures in governmental funds. General capital assets are reported in the governmental activities column of the government-wide statement of net assets, but are not reported in the fund financial statements.

Capital assets are defined by the government as assets with an initial individual cost of more than \$5,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

Improvements are capitalized and depreciated over the remaining useful lives of the related capital assets. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized.

Capital assets are depreciated using the straight-line method over the following useful lives:

<u>Descriptions</u>	<u>Estimated Lives</u>
Collection System	25 - 40 years

K. Accrued Liabilities and Long-Term Obligations

All payables, accrued liabilities and long-term obligations are reported in the government-wide financial statements. In general, payables and accrued liabilities that will be paid from governmental funds are reported as a liability in the fund financial statements at the time they are incurred, to the extent that they will be paid from current, expendable, financial resources. However, bonds and other long-term obligations, compensated absences, claims and judgments, contractually required pension contributions and special termination benefits that are paid from governmental funds are recognized as liabilities in the fund financial statements only to the extent that they are due for payment during the current year.

L. Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets consists of capital assets, net of accumulated depreciation. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the Authority or through external restrictions imposed by creditors, grantors or laws or regulations of other governments. The Authority's policy is to first apply restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

TAWAS UTILITIES AUTHORITY  
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS  
For the Year Ended June 30, 2008

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

M. Governmental Fund Balance Reserves

The Authority reserves those portions of governmental fund balance which are legally segregated for a specific future use or which do not represent available expendable resources and, therefore, are not available for appropriation or expenditure. Unreserved fund balance indicates the portion of fund balance which is available for appropriation in future periods. The purpose of the reserve is to provide a cash reserve for future debt service.

N. Governmental Fund Balance Designations

Designations of portions of the fund balance are established to indicate tentative plans for financial resource utilization in a future period. Fund balance designations have been established for future capital improvement expenses.

O. Interfund Activity

Exchange transactions between funds are reported as revenues in the seller funds and as expenditures/ expenses in the purchaser funds. Flows of cash or goods from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds. Repayments from funds responsible for particular expenditures/ expenses to the funds that initially paid for them are not presented on the financial statements.

P. Extraordinary and Special Items

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the Board and that are either unusual in nature or infrequent in occurrence. Neither type of transaction occurred during the fiscal year ended June 30, 2008.

Q. Budgets and Budgetary Accounting

The Tawas Utilities Authority normally follows these procedures in establishing the budgetary data reflected in the financial statements.

1. Prior to June 1, the Authority Treasurer submits to the Authority Board a proposed operating budget for the fiscal year commencing the following July 1. This operating budget includes proposed expenditures and the means of financing them.
2. Prior to July 1, the budget is legally enacted through passage of an ordinance.
3. All budget appropriations lapse at year-end. Budgetary amounts reported herein are as originally adopted, and as amended by the Authority Board throughout the operating year.

The Authority adopts budgets for the General Fund.

The budgets of the Authority are prepared on the same basis of accounting as the financial statement presentation. The budgets were adopted at the activity level.

Budgets shown in the financial statements are adopted on a basis consistent with generally accepted accounting principles, and consist only of those amounts contained in the formal budget approved and amended by the Authority Board.

TAWAS UTILITIES AUTHORITY  
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS  
For the Year Ended June 30, 2008

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

R. Use of Estimates

The process of preparing financial statements in conformity with accounting principles generally accepted in the United States of America requires the use of estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Such estimates primarily relate to unsettled transactions and events as of the date of the financial statements. Accordingly, upon settlement, actual results may differ from estimated amounts.

NOTE 2 - CHANGE IN ACCOUNTING PRINCIPLES

Change in Accounting Principles

For 2008, the Authority has implemented Governmental Accounting Standards Board (GASB) Statement Number 34, "Basic Financial Statements-and Management's Discussion and Analysis-for State and Local Governments"; GASB Statement No. 37, "Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments: Omnibus"; and GASB Statement No. 38, "Certain Financial Statement Note Disclosures" in their entirety as required by the Local Audit and Finance Division of the Treasury Department of the State of Michigan.

GASB Statement No. 34 creates new basic financial statements for reporting on the Authority's financial activities. The financial statements include government-wide financial statements prepared on the accrual basis of accounting. The government-wide financial statements split the Authority's programs between governmental activities and business type activities. The Authority does not currently have any business-type activities.

GASB Statement No. 37 makes certain clarifications regarding escheat property and modifies several provisions of GASB Statement No. 34, including the Management's Discussion and Analysis. GASB Statement No. 38 modifies, establishes, and rescinds certain financial statement disclosure requirements.

NOTE 3 - DEPOSITS AND INVESTMENTS

At year-end, the Authority's deposits and investments were reported in the basic financial statements in the following categories:

	<u>Governmental Activities</u>
Cash and Cash Equivalents	\$ <u><u>209,730</u></u>

The breakdown between deposits and investments is as follows:

	<u>Primary Government</u>
Bank Deposits (Checking and Savings Accounts)	\$ 1,765
Investments in Financial Institution Pooled Funds	<u>207,965</u>
Total	\$ <u><u>209,730</u></u>

TAWAS UTILITIES AUTHORITY  
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS  
For the Year Ended June 30, 2008

NOTE 3 - DEPOSITS AND INVESTMENTS (CONTINUED)

As of June 30, 2008, the Authority had the following investments.

<u>Investment Type</u>	<u>Fair Value</u>	<u>Specific Identification Maturities</u>
Primary Government: Investment Pools	\$ <u>207,965</u>	Daily

Interest Rate Risk

In accordance with its investment policy, the Authority will minimize interest rate risk, which is the risk that the market value of securities in the portfolio will fall due to changes in market interest rates, by; structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities in the open market; and investing operating funds primarily in shorter-term securities, liquid asset funds, money market mutual funds, or similar investment pools and limiting the average maturity in accordance with the Authority's known cash requirements.

Credit Risk

State law authorizes investments in investment pools as authorized by the Surplus Funds Investment Pool Act, Act No. 367 of the Public Acts of 1982, being sections 129.111 to 129.118 of the Michigan Compiled Laws, composed entirely of instruments that are legal for direct investment by a local government unit in Michigan. The Authority's investment pool's are unrated.

Custodial Credit Risk - Deposits

In the case of deposits, this is the risk that in the event of a bank failure, the Authority's deposits may not be returned to it. As of June 30, 2008, \$0 of the Authority's bank balance of \$1,765 was exposed to custodial credit risk.

Concentration of Credit Risk

The Authority will minimize concentration of credit risk, which is the risk of loss attributed to the magnitude of the Authority's investment in a single issuer, by diversifying the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized.

Custodial Credit Risk – Investments

For an investment, this is the risk that, in the event of the failure of the counterparty, the Authority will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party.

The Authority will minimize custodial credit risk, by; limiting investments to the types of securities approved in the Authority's investment policy which is in accordance with State law, and pre-qualifying the financial institutions, broker/dealers, intermediaries and advisors with which the Authority will do business.

Foreign Currency Risk

The Authority's investment policy does not address foreign currency risk.

TAWAS UTILITIES AUTHORITY  
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS  
For the Year Ended June 30, 2008

NOTE 3 - DEPOSITS AND INVESTMENTS (CONTINUED)

Investments

The Authority Board has adopted an investment policy in accordance with Act 196, PA 1997 which authorizes the Authority to deposit and invest in the following:

- λ Accounts of federally insured banks, credit unions and savings and loan associations
- λ Bonds and other direct obligations of the United States or an agency or instrumentality of the United States
- λ United States government or federal agency obligation repurchase agreements
- λ Banker's acceptances of United States banks
- Commercial paper rated within the two highest classifications by not less than two standard rating services which mature not more than 270 days after the date of purchase
- Mutual funds registered under the Investment Company Act of 1940, Title I of Chapter 686, 54 Stat. 789 15 U.S.C. 80a-1 to 80a-3 and 80a-4 to 80a-64 with the authority to purchase only investment vehicles that are legal for direct investment by a public corporation

Michigan law requires that public funds may not be deposited in financial institutions that do not maintain an office in Michigan. The Authority's deposits and investments are in accordance with statutory authority.

NOTE 4 - CAPITAL ASSETS

Capital asset activity of the primary government for the fiscal year ended June 30, 2008, was as follows:

	<u>Balance</u> <u>07/01/07</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>06/30/08</u>
<u>Governmental Activities</u>				
Capital Assets Not Being Depreciated:				
Land	\$ <u>7,500</u>	\$ <u>0</u>	\$ <u>0</u>	\$ <u>7,500</u>
Capital Assets Being Depreciated:				
Collection System	<u>289,998</u>	<u>0</u>	<u>0</u>	<u>289,998</u>
Less Accumulated Depreciation for:				
Collection System	<u>45,042</u>	<u>7,250</u>	<u>0</u>	<u>52,292</u>
Capital Assets Being Depreciated	<u>244,956</u>	<u>(7,250)</u>	<u>0</u>	<u>237,706</u>
Governmental Activities Total				
Capital Assets - Net of Depreciation	\$ <u><u>252,456</u></u>	\$ <u><u>(7,250)</u></u>	\$ <u><u>0</u></u>	\$ <u><u>245,206</u></u>

TAWAS UTILITIES AUTHORITY  
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS  
For the Year Ended June 30, 2008

NOTE 4 - CAPITAL ASSETS (CONTINUED)

Depreciation expense was charged to programs of the primary government as follows:

Governmental Activities

Public Works:

Other Public Works \$ 7,250

NOTE 5 - DEFERRED REVENUE

Governmental funds report deferred revenue in connection with receivables for revenue that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received but not yet earned. At the end of the current fiscal year, the various components of deferred revenue are as follows:

	<u>Unavailable</u>	<u>Unearned</u>	<u>Total</u>
Contracts Receivable	\$ <u>190,000</u>	\$ <u>0</u>	\$ <u>190,000</u>
Total	\$ <u>190,000</u>	\$ <u>0</u>	\$ <u>190,000</u>

NOTE 6 - LONG-TERM LIABILITIES

A. Bonds Payable

Governmental

1992 Tawas Utilities Authority General Obligation Limited Tax Bonds in the amount of \$650,000 obtained for the purpose of paying the cost of an extension of the sewer system to the Tawas Point Coastguardville area. The bonds bear interest at 4.0% to 6.45% and are due in annual installments of \$15,000 to \$50,000 through 2012. Payments are made from the Industrial Park Project Sewer System #2 Debt Service Fund.

\$ 190,000

Total Primary Government

\$ 190,000

B. Changes in Long-Term Liabilities

The following is a summary of long-term debt transactions of the Authority for the year ended June 30, 2008:

	<u>Balance 07/01/07</u>	<u>Issues or Additions</u>	<u>Payments or Expenditures</u>	<u>Balance 06/30/08</u>	<u>Due Within One Year</u>
<u>Governmental Activities</u>					
Primary Government:					
Bonds Payable	\$ <u>235,000</u>	\$ <u>0</u>	\$ <u>(45,000)</u>	\$ <u>190,000</u>	\$ <u>45,000</u>



TAWAS UTILITIES AUTHORITY  
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS  
For the Year Ended June 30, 2008

NOTE 6 - LONG-TERM LIABILITIES (CONTINUED)

The annual aggregate maturities for all debt outstanding as of June 30, 2008 are as follows:

<b>Bonds Payable</b>	<u>Governmental Activities</u>		<u>Total</u>
	<u>Principal</u>	<u>Interest</u>	
2009	\$ 45,000	\$ 12,210	\$ 57,210
2010	45,000	9,330	54,330
2011	50,000	6,450	56,450
2012	<u>50,000</u>	<u>3,225</u>	<u>53,225</u>
Total	<u>\$ 190,000</u>	<u>\$ 31,215</u>	<u>\$ 221,215</u>

NOTE 7 - LEASE AGREEMENT

The Cities of East Tawas and Tawas City entered into a capital lease agreement with the County of Iosco. The agreement calls for lease payments in an amount equal to the debt payments due on the County's requirement on a \$4,650,000 bond issue used to partially finance the construction of the sewage treatment facilities. Ownership of the facilities will transfer to the Authority at the expiration of the lease. The debt service requirements mentioned above are being directly made by each municipality involved in the joint agreement. The Authority was established for maintenance of the facilities therefore no debt has been reflected on the books of the Authority.

NOTE 8 - MAINTENANCE CONTRACT

The Tawas Utilities Authority contracts with an outside firm to provide all routine operation and maintenance of the Authority's facilities. A monthly fee is paid to the firm for standard services and is subject to an annual review. As of June 30, 2008, the monthly fee was \$30,065. For the year ended June 30, 2008, the total amount paid to the firm was \$355,777.

NOTE 9 - RISK MANAGEMENT

The Authority is exposed to various risks of loss related to property loss, torts, errors and omissions, employee injuries and natural disasters. The Authority has purchased commercial insurance for risks of loss. Settled claims for the commercial insurance have not exceeded the amount of insurance coverage in any of the past three years.

REQUIRED SUPPLEMENTARY INFORMATION

TAWAS UTILITIES AUTHORITY  
Iosco County, Michigan

STATEMENT OF REVENUE, EXPENDITURES AND  
 CHANGES IN FUND BALANCES - BUDGET AND ACTUAL  
 GENERAL FUND  
For the Year Ended June 30, 2008

	Original Budget	Final Amended Budget	Actual	Variance - Favorable (Unfavorable)
<u>Revenue</u>				
Charges for Services	\$ 432,050	\$ 435,300	\$ 435,419	\$ 119
Interest and Rentals	5,000	7,200	7,231	31
Other Revenue	<u>100</u>	<u>0</u>	<u>0</u>	<u>0</u>
Total Revenue	<u>437,150</u>	<u>442,500</u>	<u>442,650</u>	<u>150</u>
<u>Expenditures</u>				
Current:				
Public Works	412,650	422,500	396,525	25,975
Capital Outlay	<u>24,500</u>	<u>20,000</u>	<u>11,590</u>	<u>8,410</u>
Total Expenditures	<u>437,150</u>	<u>442,500</u>	<u>408,115</u>	<u>34,385</u>
Excess of Revenue Over (Under) Expenditures	0	0	34,535	34,535
Fund Balances - Beginning of Year	<u>188,053</u>	<u>188,053</u>	<u>188,053</u>	<u>0</u>
Fund Balances - End of Year	<u>\$ 188,053</u>	<u>\$ 188,053</u>	<u>\$ 222,588</u>	<u>\$ 34,535</u>



*Stephenson, Gracik & Co., P.C.*  
Certified Public Accountants & Consultants

Alan J. Stephenson, CPA  
Gerald D. Gracik Jr., CPA  
James J. Gracik, CPA  
Donald W. Brannan, CPA  
Kyle E. Troyer, CPA

Herman A. Bertuleit

December 10, 2008

Members of the Authority Board  
Tawas Utilities Authority  
Iosco County, Michigan

We have conducted the audit of the financial statements of the governmental activities and each major fund of the Tawas Utilities Authority as of and for the year ended June 30, 2008 and have issued our report dated December 10, 2008. We are required to communicate certain matters to you in accordance with auditing standards generally accepted in the United States of America that are related to internal control and the audit. The appendices to this letter set forth those communications as follows:

I Auditor's Communication of Significant Matters with Those Charged with Governance

II Management Comments

We discussed these matters with various personnel of the Authority during the audit and met with management on December 10, 2008. We would also be pleased to meet with you to discuss these matters at your convenience.

These communications are intended solely for the information and use of management, the Board, others within the Authority and the Michigan Department of Treasury and are not intended to be and should not be used by anyone other than those specified parties.

Very truly yours,

*Stephenson, Gracik & Co., P.C.*

## **Appendix I**

### **Communication to Those Charged with Governance**

#### **Responsibilities Under Generally Accepted Auditing Standards**

As stated in our engagement letter dated September 24, 2008, we are responsible for conducting our audit in accordance with auditing standards generally accepted in the United States of America (US GAAS) established by the Auditing Standards Board of the American Institute of Certified Public Accountants. Our responsibility, as prescribed by US GAAS, is to express an opinion about whether the financial statements prepared by management, with your oversight, are fairly presented, in all material respects. Our audit does not relieve you of your responsibilities.

#### **Planned Scope and Timing of the Audit**

We performed the audit as outlined in our engagement letter related to planning matters dated September 24, 2008.

#### **Significant Audit Findings**

- Management is responsible for the selection and use of appropriate accounting policies. We will advise management about their appropriateness and application. The significant accounting policies are described in (Note 1) of the financial statements. We noted no transactions entered into by the Authority during the year where there is lack of authoritative guidance or consensus. There are no significant transactions that were recognized in a period other than which they occurred.
- Accounting estimates are based on management's knowledge and experience about past and current events and assumptions. Some estimates are sensitive because of their significance to the financial statements and the fact that future events affecting them may differ from those expected.
- Disclosures in the financial statements are neutral, consistent and clear. Certain disclosures are more sensitive than others due to their relevance to the users of the financial statements.

#### **Difficulties Encountered During the Audit**

We encountered no difficulties during the audit.

#### **Corrected and Uncorrected Misstatements**

Professional standards require that the auditor accumulate all known and likely misstatements identified during the audit, other than those the auditor believes to be trivial. The adjustments identified during the audit have been communicated to management. A summary of unadjusted audit differences was provided to management on December 10, 2008.

#### **Disagreements with Management**

A disagreement with management is defined as a financial accounting, reporting or auditing matter, whether or not resolved to our satisfaction, which could be significant, individually or in the aggregate to the financial statements or the auditor's report. We had no disagreements with management during the audit.

**Appendix I**  
**Communication to Those Charged with Governance**

**Management Representations**

We have requested certain representations from management that are included in the management representation letter dated as of the date of the audit report.

**Management's Consultations with Other Accountants**

From time to time, management may decide to consult with other accountants about audit and accounting matters. Should this occur, professional standards require the consulting accountant to communicate with us to determine that they have all the relevant facts. To our knowledge, there were no consultations with other accountants during the year.

**Significant Issues Discussed or Subject to Correspondence with Management**

From time to time auditors discuss significant issues with management such as business conditions affecting the entity, business plans and strategies that may affect the risk of material misstatement and the application of accounting principles and auditing standards. The issues discussed during the audit occurred during the normal course of our professional relationship and our responses were not a condition to our retention.

## **Appendix II Management Comments**

In planning and performing our audit of the financial statements of the Tawas Utilities Authority as of and for the year ended June 30, 2008, in accordance with auditing standards generally accepted in the United States of America, we considered the Tawas Utilities Authority's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing an opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Tawas Utilities Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of the Tawas Utilities Authority's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control. We identified no deficiencies in internal control that we consider to be significant deficiencies or material weaknesses.

We have noted various items we feel could improve your internal controls or operating efficiencies. These items are not considered significant deficiencies or material weaknesses but are presented for your consideration.

### **FINANCIAL STATEMENT PREPARATION CONTROLS**

In conjunction with our audit, we have been contracted to prepare the financial statements and related disclosures based on the information provided to us by Management. We would like to stress that this service is allowable under AICPA ethics guidelines and may be the most efficient and effective method for preparation of the Tawas Utilities Authority's financial statements. However, if at any point in the audit we as auditors are part of the Tawas Utilities Authority's control system for producing reliable financial statements, auditing standards indicate that the Authority has a control deficiency. If Management is not able to prepare financial statements, including disclosures, and the auditors are contracted to prepare these statements, this is considered a control deficiency. We believe that management is capable of preparing the financial statements portion of the report; however, we recommend that management look into purchasing the 2005 Governmental Accounting, Auditing and Financial Reporting – Using GASB 34 Model (commonly known as the “Blue Book”), to help train and assist management with the disclosures required for the financial statements. This guide is offered through the Government Finance Officers Association website [www.gfoa.org](http://www.gfoa.org).

**Appendix II**  
**Management Comments**

**PASSWORD PROTECTION**

It is our understanding that the computer that maintains the accounting software is currently not password protected; therefore, the accounting system could be altered by unauthorized individuals. In order to help control the accounting environment, we recommend that management adopt policies and procedures requiring the use of passwords. Only the Administrative Assistant should have a password to her computer, and this password should be changed at least once every six months.

**STATUS OF PRIOR YEAR COMMENTS:**

We have reviewed the status of comments and recommendations made in the prior year. The status of prior year comments is as follows:

<u>Comment</u>	<u>Implemented/ Situation Corrected</u>	<u>Management Decision To Not Implement</u>	<u>Progress Made</u>	<u>Situation Still Exists</u>
Financial Statement Preparation			X	